



MATATIELE

LOCAL MUNICIPALITY

Matatiele Local Municipality
Annual Financial Statements
for the year ended 30 June 2020

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Executive committee

| | |
|---|---------------------|
| Mayor | M M Mbedla |
| Speaker | N Mshuqwana |
| Chief Whip | S Mngenela |
| Portfolio Head: Budget and Treasury | N Ngwanya |
| Portfolio Head: Economic Development | N A Nkukhu |
| Portfolio Head: Community Services | S Maphasa |
| Portfolio Head: Infrastructure Services | MC Setanane |
| Portfolio Head: Special Programmes | ZP Bono |
| Portfolio Head: Corporate Services | T Dyantyi |
| EXCO Member | KC Biggs |
| EXCO Member | WC Mdolomba |
| EXCO Member | M S Boo |
| Chairperson: MPAC | S Baba |
| Chairperson: Public Participation | M Motloli |
| Chairperson: Women's Caucus | N Maketela |
| Members of the council | |
| Member | FP Libaziso |
| Member | MJ Mtoto |
| Member | N P Xaki |
| Member | T P Likobela |
| Member | S Vikwa |
| Member | N C Sithole |
| Member | P T Hloele |
| Member | N I Makhube |
| Member | CN Sambane |
| Member | N I Mpopo |
| Member | F Shale |
| Member | L E Nkamba |
| Member | X Mnconywa |
| Member | ZP Bono |
| Member | J G van Wyhe |
| Member | C L Nxesi |
| Member | H M Mdingi |
| Member | K E Sephuhla |
| Member | N N Paula |
| Member | T L Mohoto |
| Member | W K Leballo |
| Member | N B Nkomo |
| Member | P A Mohale |
| Member | I N Maketela |
| Member | LE Stuurman |
| Member | N R Ludidi - Mzonke |
| Member | N Mosebetsane |
| Member | N A Ganya |
| Member | N Njobe |
| Member | S N Mgolombane |
| Member | TC Mshuqwana-Galo |
| Member | T Molefe |
| Member | T F Mohatla |
| Member | TL Mothapa |
| Member | WB Potwana |
| Member | J Mabula |
| Member | S Mzozoyana |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

| | | |
|---|--|---|
| Municipal Manager | Dr DCT Nakin Mr L. Matiwane Mr V Mlokothe | From 1 July 2019 to 31 March 2020 From 10 January 2020 to 26 January 2020 27 January 2020 until the end of financial year |
| Shared audit committee | Adv. T .W. Mgidlana Ms. N.I. Mba CA(SA) Mr. Z Zulu | Chairperson: 1 Aug 2019 - 30 June 2020 Member: 1 Aug 2019 - 30 June 2020 Member: 1 Aug 2019 - 30 June 2020 |
| Grading of local authority | 3 | |
| Chief Financial Officer (CFO) | Mr K Mehlomakulu | |
| Registered office | 102 Main Street Matatiele 4730 | |
| Physical address | 102 Main Street Matatiele 4730 | |
| Postal address | P.O. Box 35 Matatiele 4730 | |
| Bankers | Nedbank | |
| Auditors | Auditor General of South Africa (AGSA) | |
| Registered business telephone number | 039 737 8100 | |
| Level of assurance | These financial statements will be audited in compliance with the applicable requirements of GRAP. | |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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The reports and statements set out below comprise the annual financial statements presented to the Council:

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Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The interim financial statements were prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) as well as the relevant interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I, as the Accounting Officer, acknowledge that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, I have set standards for internal control aimed at reducing the risk of error or deficit in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring that the municipality's business is conducted in a manner that at all reasonable circumstances are above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

I have reviewed the municipality's cash flow forecast for the year ending 30 June 2021. In light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue operating for a foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the Matatiele Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although, I am primarily responsible for the financial affairs of the municipality, this is supported by the municipality's external auditors.

I would like to bring to your attention the following material matters to your attention:

I certify that the salaries, allowances and benefits of councillors as disclosed in note 27 to these financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.

The external auditor, being the Auditor General of South Africa, is responsible for auditing and expressing an opinion on the municipality's financial statements.

The financial statements set out on pages 5 to 57, which have been prepared on the going concern basis, were approved.


Mr L. Matiwane
Municipal Manager

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

| | Notes | 2020 R | 2019 Restated* R |
|---|-------|----------------------|------------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 2 | 1,702,594 | 973,773 |
| Receivables from non-exchange transactions | 3 | 87,085,239 | 81,303,779 |
| VAT receivable | 4 | 12,101,681 | 3,679,487 |
| Prepayments | 5 | 4,460,622 | 4,485,439 |
| Trade receivables from exchange transactions | 6 | 8,257,890 | 7,885,922 |
| Cash and cash equivalents | 7 | 153,085,216 | 123,997,462 |
| | | 266,693,242 | 222,325,862 |
| Non-Current Assets | | | |
| Investment property | 8 | 35,574,602 | 35,574,602 |
| Property, plant and equipment | 9 | 1,044,455,063 | 936,658,361 |
| Property, plant and equipment- Capitalised restoration cost | 9.1 | 13,612,622 | 14,126,367 |
| Intangible assets | 10 | 332,667 | 413,081 |
| Employee benefit asset | 15 | 687,624 | - |
| | | 1,094,662,578 | 986,772,411 |
| Total Assets | | 1,361,355,820 | 1,209,098,273 |
| Liabilities | | | |
| Current Liabilities | | | |
| Payables from exchange transactions | 11 | 48,980,526 | 43,964,625 |
| Consumer deposits | 12 | 345,497 | 299,527 |
| Unspent conditional grants and receipts | 13 | 1,752,893 | 3,236,254 |
| Provisions | 14 | 11,998,424 | 10,768,318 |
| | | 63,077,340 | 58,268,724 |
| Non-Current Liabilities | | | |
| Provisions | 14 | 13,049,793 | 13,259,530 |
| Employee benefit obligation | 15 | 15,978,627 | 15,215,831 |
| | | 29,028,420 | 28,475,361 |
| Total Liabilities | | 92,105,760 | 86,744,085 |
| Net Assets | | 1,269,250,060 | 1,122,354,189 |
| Reserves | | | |
| Revaluation reserve | 16 | 230,445,832 | 230,445,831 |
| Accumulated surplus | | 1,038,804,228 | 891,908,354 |
| Total Net Assets | | 1,269,250,060 | 1,122,354,189 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

| | Notes | 2020 R | 2019 Restated* R |
|---|-------|----------------------|------------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 18 | 58,434,130 | 61,165,844 |
| Rental of facilities and equipment | 19 | 803,197 | 853,155 |
| Licences and permits | 20 | 2,557,070 | 3,279,009 |
| Landfill site provision reduction | | 209,737 | - |
| Other income | 21 | 2,569,432 | 2,459,008 |
| Interest received | 22 | 24,528,113 | 20,109,004 |
| Total revenue from exchange transactions | | 89,101,679 | 87,866,020 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 23 | 44,903,631 | 43,280,098 |
| Transfer revenue | | | |
| Government grants & subsidies | 24 | 369,222,363 | 320,562,017 |
| Public contributions and donations | | - | 2,873,871 |
| Fine receipts | 25 | 1,397,543 | 3,470,659 |
| Total revenue from non-exchange transactions | | 415,523,537 | 370,186,645 |
| Total revenue | 17 | 504,625,216 | 458,052,665 |
| Expenditure | | | |
| Employee related costs | 26 | (115,401,765) | (110,200,612) |
| Remuneration of councillors | 27 | (20,447,212) | (19,626,185) |
| Remuneration of traditional leaders | 28 | (386,324) | (448,802) |
| Landfill site provision contribution | 14 | - | (816,460) |
| Depreciation and amortisation | 29 | (47,731,328) | (48,540,497) |
| Impairment loss/Reversal of impairments | 30 | - | (129,764) |
| Finance costs | 31 | (3,082) | (5,345) |
| Debt Impairment | 32 | (13,883,601) | (5,001,244) |
| Material and stores | 33 | (4,192,167) | (3,645,783) |
| Bulk purchases | 34 | (39,938,390) | (39,260,295) |
| Contracted services | 35 | (81,078,040) | (67,838,057) |
| Transfers and subsidies paid | | - | (150,000) |
| Operating/General Expenses | 36 | (33,956,848) | (39,590,304) |
| Total expenditure | | (357,018,757) | (335,253,348) |
| Operating surplus | | 147,606,459 | 122,799,317 |
| Loss on disposal of assets and liabilities | | (710,584) | (122,899,333) |
| Fair value adjustments | | - | 17,071,800 |
| | | (710,584) | (105,827,533) |
| Surplus for the year | | 146,895,875 | 16,971,784 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

| | Revaluation reserve R | Accumulated surplus R | Total net assets R |
|--|-----------------------------|-----------------------------|--------------------------|
| Opening balance as previously reported | 167,422,002 | 864,564,463 | 1,031,986,465 |
| Adjustments | | | |
| Correction of errors | - | 569,490 | 569,490 |
| Balance at 01 July 2018 as restated* | 167,422,002 | 865,133,953 | 1,032,555,955 |
| Changes in net assets | | | |
| Surplus for the year | - | 16,971,785 | 16,971,785 |
| Revaluation | 69,118,286 | 3,153,660 | 72,271,946 |
| Transfer from revaluation to accumulated surplus | (6,094,456) | 5,958,957 | (135,499) |
| Transfer in of sports field | - | 690,000 | 690,000 |
| Total changes | 63,023,830 | 26,774,402 | 89,798,232 |
| Restated* Balance at 01 July 2019 | 230,445,832 | 891,908,353 | 1,122,354,185 |
| Changes in net assets | | | |
| Surplus for the year | - | 146,895,875 | 146,895,875 |
| Total changes | - | 146,895,875 | 146,895,875 |
| Balance at 30 June 2020 | 230,445,832 | 1,038,804,228 | 1,269,250,060 |

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Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

| | Notes | 2020 R | 2019 Restated* R |
|---|-------|----------------------|------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Sale of goods and services | | 86,332,606 | 83,329,246 |
| Grants | | 367,739,002 | 313,976,999 |
| Interest income | | 24,528,113 | 20,109,004 |
| Other receipts | | 4,149,070 | 3,470,659 |
| | | 482,748,791 | 420,885,908 |
| Payments | | | |
| Payments to Suppliers and Employees | | (298,013,518) | (284,248,873) |
| Finance costs | | (3,082) | (5,345) |
| | | (298,016,600) | (284,254,218) |
| Net cash flows from operating activities | 37 | 184,732,191 | 136,631,690 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 9 | (155,237,125) | (132,502,842) |
| Purchase of other intangible assets | 10 | (407,320) | - |
| Net cash flows from investing activities | | (155,644,445) | (132,502,842) |
| Net increase in cash and cash equivalents | | 29,087,746 | 4,128,848 |
| Cash and cash equivalents at the beginning of the year | | 123,997,462 | 119,868,614 |
| Cash and cash equivalents at the end of the year | 7 | 153,085,208 | 123,997,462 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|--------------------|----------------------|--|---|-----------|
| | R | R | R | R | R | |
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Service charges | 68,077,246 | - | 68,077,246 | 58,434,130 | (9,643,116) | Note 48 |
| Rental of facilities and equipment | 1,700,000 | (885,000) | 815,000 | 803,197 | (11,803) | |
| Licences and permits | 4,524,684 | 10,000 | 4,534,684 | 2,557,070 | (1,977,614) | Note 48 |
| Landfill site provision reduction | - | - | - | 209,737 | 209,737 | |
| Other income | 1,673,000 | 486,000 | 2,159,000 | 2,569,432 | 410,432 | |
| Interest received - investment | 23,224,923 | 1,012,001 | 24,236,924 | 24,528,113 | 291,189 | |
| Total revenue from exchange transactions | 99,199,853 | 623,001 | 99,822,854 | 89,101,679 | (10,721,175) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 44,100,000 | - | 44,100,000 | 44,903,631 | 803,631 | |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 359,958,000 | 9,745,000 | 369,703,000 | 369,222,363 | (480,637) | |
| Fine receipts | 2,093,696 | 150,000 | 2,243,696 | 1,397,543 | (846,153) | Note 48 |
| Total revenue from non-exchange transactions | 406,151,696 | 9,895,000 | 416,046,696 | 415,523,537 | (523,159) | |
| Total revenue | 505,351,549 | 10,518,001 | 515,869,550 | 504,625,216 | (11,244,334) | |
| Expenditure | | | | | | |
| Employee related costs | (120,607,804) | (1,897,389) | (122,505,193) | (115,401,765) | 7,103,428 | Note 48 |
| Remuneration of councillors | (22,763,488) | (31,835) | (22,795,323) | (20,447,212) | 2,348,111 | Note 48 |
| Remuneration of traditional leaders | (380,000) | - | (380,000) | (386,324) | (6,324) | |
| Depreciation and amortisation | (30,447,764) | - | (30,447,764) | (47,731,328) | (17,283,564) | |
| Finance costs | - | - | - | (3,082) | (3,082) | |
| Lease rentals on operating lease | (500,000) | (350,000) | (850,000) | - | 850,000 | |
| Debt Impairment | (5,500,000) | 1,500,000 | (4,000,000) | (13,883,601) | (9,883,601) | Note 48 |
| Material and stores | (4,631,500) | (2,728,000) | (7,359,500) | (4,192,167) | 3,167,333 | Note 48 |
| Bulk purchases | (47,900,000) | - | (47,900,000) | (39,938,390) | 7,961,610 | Note 48 |
| Contracted Services | (88,322,925) | (4,196,968) | (92,519,893) | (81,078,040) | 11,441,853 | Note 48 |
| General Expenses | (67,238,647) | 6,186,192 | (61,052,455) | (33,956,848) | 27,095,607 | Note 48 |
| Total expenditure | (388,292,128) | (1,518,000) | (389,810,128) | (357,018,757) | 32,791,371 | |
| Operating surplus | 117,059,421 | 9,000,001 | 126,059,422 | 147,606,459 | 21,547,037 | |
| Loss on disposal of assets and liabilities | - | - | - | (710,584) | (710,584) | |
| Surplus before taxation | 117,059,421 | 9,000,001 | 126,059,422 | 146,895,875 | 20,836,453 | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 117,059,421 | 9,000,001 | 126,059,422 | 146,895,875 | 20,836,453 | |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|---------------------|----------------------|--|---|-----------|
| | R | R | R | R | R | |
| Statement of Financial Position | | | | | | |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Inventories | 1,032,087 | (58,317) | 973,770 | 1,702,594 | 728,824 | |
| Receivables from non-exchange transactions | 68,231,091 | 31,045,628 | 99,276,719 | 87,085,239 | (12,191,480) | |
| VAT receivable | - | - | - | 12,101,681 | 12,101,681 | |
| Prepayments | - | - | - | 4,460,622 | 4,460,622 | |
| Consumer debtors | 14,206,365 | 31,056,853 | 45,263,218 | 8,257,890 | (37,005,328) | |
| Cash and cash equivalents | 119,919,218 | (38,397,468) | 81,521,750 | 153,085,216 | 71,563,466 | |
| | 203,388,761 | 23,646,696 | 227,035,457 | 266,693,242 | 39,657,785 | |
| Non-Current Assets | | | | | | |
| Property, plant and equipment- Capitalised restoration cost | 14,000,000 | - | 14,000,000 | 13,612,622 | (387,378) | |
| Investment property | 21,221,094 | 14,353,508 | 35,574,602 | 35,574,602 | - | |
| Property, plant and equipment | 1,107,716,518 | (14,003,747) | 1,093,712,771 | 1,044,455,063 | (49,257,708) | |
| Intangible assets | 1,798,770 | (1,305,689) | 493,081 | 332,667 | (160,414) | |
| Employee benefit asset | - | - | - | 687,624 | 687,624 | |
| | 1,144,736,382 | (955,928) | 1,143,780,454 | 1,094,662,578 | (49,117,876) | |
| Total Assets | 1,348,125,143 | 22,690,768 | 1,370,815,911 | 1,361,355,820 | (9,460,091) | |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Payables from exchange transactions | 36,607,489 | 44,224,841 | 80,832,330 | 47,086,591 | (33,745,739) | |
| Consumer deposits | 301,050 | 954,288 | 1,255,338 | 345,497 | (909,841) | |
| Unspent conditional grants and receipts | - | - | - | 1,752,893 | 1,752,893 | |
| Provisions | 912,040 | 13,378,536 | 14,290,576 | 11,998,424 | (2,292,152) | |
| | 37,820,579 | 58,557,665 | 96,378,244 | 61,183,405 | (35,194,839) | |
| Non-Current Liabilities | | | | | | |
| Employee benefit obligation | 15,426,012 | - | 15,426,012 | 15,978,627 | 552,615 | |
| Provisions | 13,687,576 | (1,999,519) | 11,688,057 | 13,049,793 | 1,361,736 | |
| | 29,113,588 | (1,999,519) | 27,114,069 | 29,028,420 | 1,914,351 | |
| Total Liabilities | 66,934,167 | 56,558,146 | 123,492,313 | 90,211,825 | (33,280,488) | |
| Net Assets | 1,281,190,976 | (33,867,378) | 1,247,323,598 | 1,271,143,995 | 23,820,397 | |
| Net Assets | | | | | | |
| Net Assets Attributable to Owners of Controlling Entity | | | | | | |
| Reserves | | | | | | |
| Revaluation reserve | 409,439,827 | 43,020,148 | 452,459,975 | 230,445,832 | (222,014,143) | |
| Accumulated surplus | 761,906,190 | 32,957,433 | 794,863,623 | 1,040,698,163 | 245,834,540 | |
| Total Net Assets | 1,171,346,017 | 75,977,581 | 1,247,323,598 | 1,271,143,995 | 23,820,397 | |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|----------------------|---------------------|----------------------|--|---|-----------|
| | R | R | R | R | R | |
| Cash Flow Statement | | | | | | |
| Cash flows from operating activities | | | | | | |
| Receipts | | | | | | |
| Sale of goods and services | 97,217,653 | 3,741,882 | 100,959,535 | 86,332,606 | (14,626,929) | |
| Grants | 359,958,000 | 9,745,002 | 369,703,002 | 367,739,001 | (1,964,001) | |
| Interest income | - | 21,427,692 | 21,427,692 | 24,528,113 | 3,100,421 | |
| Other receipts | 21,119,304 | (12,938,635) | 8,180,669 | 4,149,070 | (4,031,599) | |
| | 478,294,957 | 21,975,941 | 500,270,898 | 482,748,790 | (17,522,108) | |
| Payments | | | | | | |
| Suppliers and employees | (352,194,364) | (2,273,000) | (354,467,364) | (298,013,519) | 56,453,845 | |
| Other payments | (150,000) | - | (150,000) | (3,082) | 146,918 | |
| | (352,344,364) | (2,273,000) | (354,617,364) | (298,016,601) | 56,600,763 | |
| Net cash flows from operating activities | 125,950,593 | 19,702,941 | 145,653,534 | 184,732,189 | 39,078,655 | |
| Cash flows from investing activities | | | | | | |
| Purchase of property, plant and equipment | (125,574,160) | (52,810,090) | (178,384,250) | (156,173,131) | 22,211,119 | |
| Purchase of other intangible assets | - | - | - | (407,320) | (407,320) | |
| Net cash flows from investing activities | (125,574,160) | (52,810,090) | (178,384,250) | (156,580,451) | 21,803,799 | |
| Cash flows from financing activities | | | | | | |
| Decrease in consumer debtor | (954,288) | - | (954,288) | - | 954,288 | |
| Net increase/(decrease) in cash and cash equivalents | 376,433 | (33,107,149) | (32,730,716) | 28,151,738 | 60,882,454 | |
| Cash and cash equivalents at the beginning of the year | 132,257,247 | (8,259,781) | 123,997,466 | 123,997,462 | (4) | |
| Cash and cash equivalents at the end of the year | 132,633,680 | (41,366,930) | 91,266,750 | 152,149,200 | 60,882,450 | |
| Reconciliation | | | | | | |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

The accounting policies applied are consistent with those used to present the previous year's financial statements.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. All amounts are rounded to the nearest Rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months. In preparing the financial statements, management is required to make estimates and assumptions that impact on the municipality financial statements once implemented. Actual results in the future could differ from these estimates which may be material to the mid term financial statements.

1.2.1 Comparative Information

When the presentation or classification of items in the mid term financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.2.1.1 Municipal Standard Chart of Accounts (mSCOA) Implementation and Reclassification

The Municipal Regulations on Standard Chart of Accounts promulgated in terms of Government Gazette 37577 dated 22 April 2014 apply to all municipalities and municipal entities and became effective from 1 July 2017.

The main objective of this regulation is to provide for a national standard in respect of uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which:

- a) are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard chart of accounts for national and provincial government; and
- b) enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.

The impact of this mSCOA regulations definitely affected the municipality's current business processes; transacting and reporting requirements.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

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1.3 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Debtors from 90 days and above are impaired (debtors less than 90 days are not impaired).

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, as well as land with no determinable future use. When Investment property is recognised as an asset i.e. probable that future economic benefits will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. Costs include costs incurred initially and cost incurred subsequently to add to, or to replace a part or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Subsequent measurement

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

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1.5 Property, plant and equipment (continued)

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The residual value of property, plant and equipment has been determined using historical data and market conditions. A base level of 20 percent is applied except where specific assets are deemed to vary significantly from this estimate.

SUBSEQUENT MEASUREMENT

The following categories of Property, plant and equipment are carried at the revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses:

- Land and Buildings
- Infrastructure
- Community Assets

The following categories of Property, plant and equipment are carried on the cost model, being the cost less accumulated depreciation and any impairment losses:

- Other property, plant and equipment
- Capital under construction.

Capital under construction is not depreciated as the asset has not been brought into use yet. Land is not depreciated as it is deemed to have an indefinite useful life.

Revaluations are made every 5 years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The land and buildings are checked against deeds information to ensure that the properties included in the register are owned and controlled by the municipality.

Market values are analysed to ensure that the value reflect the fair value of the fixed asset concerned. The assets with significant high market values to their carrying values are assessed for reasonableness as per requirements of GRAP 17.

The market value is split between land and buildings using a 10:90 split respectively.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit

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1.5 Property, plant and equipment (continued)

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

DEPRECIATION

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land is not depreciated as it is regarded as having an indefinite life. Depreciation on assets other than land is calculated on cost or revalued amount, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are initially based on the following originally estimated useful lives and thereafter on the estimated remaining useful lives as at year end:

| Infrastructure: | Years | Community: | Years | Other: | Years |
|------------------|-------|----------------------------------|-------|------------------------|-------|
| Roads and Paving | 10-30 | Improvements | 25-30 | Buildings | 30 |
| Electricity | 20-30 | Recreational facilities | 15-20 | Specialist vehicles | 10 |
| Water | 15-20 | Security | 03-05 | Other vehicles | 05-10 |
| Sewerage | 15-20 | Components: | | Office equipment | 03-07 |
| Landfill Sites | 10-65 | Doors & Iron | 08-15 | Furniture and fittings | 07-10 |
| Housing | 30 | Doors & Iron(extensive) | 15-30 | Watercraft | 15 |
| Pedestrian Malls | 20 | Fittings | 05-15 | Bins and containers | 05-10 |
| | | Fittings and fixtures | 15-30 | Specialised equipment | 10-15 |
| | | Windows & glazing | 08-15 | Other plant and equip | 02-15 |
| | | Windows & glazing (extensive) | 15-30 | External wall | 20-30 |
| | | External roof structure/covering | 15-35 | Floor structure | 20-40 |
| | | Floor finish | 05-15 | Wall painting | 05-10 |
| | | Wall structure (internal) | 20-50 | Drainage | 10-30 |
| | | Electrical | 10-30 | Plumbing | 10-30 |

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost:

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1.6 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| | |
|--------------------------|-----------|
| Computer software, other | 3-5 years |
|--------------------------|-----------|

SUBSEQUENT MEASUREMENT

Intangible assets are subsequently measured at cost less accumulated amortisation.

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

Initial recognition and measurement

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Subsequent measurement

Financial instruments are classified as financial instruments at fair value through profit or loss where the financial instrument is either held for trading (including derivative instruments) or is designated as at fair value through profit or loss and are carried at fair value with any gains or losses being recognised in profit or loss. Fair value, for this purpose, is market value if listed or a value arrived at by using appropriate valuation models if unlisted.

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Accounting Policies

1.7 Financial instruments (continued)

Trade Receivables

Trade and other receivables are classified as loans and receivables and are measured at amortised cost less provision for doubtful debts, which is determined as set out under impairment of assets set out in policy note 1.10. Items with extended terms are initially recorded at the present value of future cash flows and interest received is accounted for over the term until payment is received. Write-downs of these assets are expensed in profit or loss.

Cash and cash equivalents

Cash and cash equivalents includes investments from call accounts which are held on a 30 day notice and can be received anytime the municipality wishes to utilize the funds. These investments are measured at fair value.

Cash and cash equivalents are measured at fair value.

Financial Liabilities

Non-derivative financial liabilities that are not designated on initial recognition as financial liabilities at fair value through profit or loss are measured at amortised cost using the effective interest rate method. Items with extended terms are initially recorded at the present value of future cash flows.

Trade Payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

The cost of inventories is assigned using the FIFO formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of assets

The entity assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash generating assets), the asset is considered impaired and is written down to its recoverable amount or recoverable service amount.

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1.10 Impairment of assets (continued)

If the recoverable amount of an asset is estimated to be less than its carrying amount, its carrying amount is reduced to the higher of its recoverable amount and zero. Subsequent to the recognition of an impairment loss, the depreciation or amortisation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

Impairment losses on receivables are determined based on specific and objective evidence that assets are impaired and is measured as the difference between the carrying amount of assets and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are recognised in profit or loss. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in the profit or loss.

1.11 Derecognition of assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows have been transferred or have expired or when substantially all the risks and rewards of ownership have passed.

All other assets are derecognised on disposal or when no future economic benefits are expected from their use.

Financial liabilities are derecognised when the relevant obligation has either been discharged, cancelled or has expired.

1.12 Employee costs

These are all costs paid by an employer in exchange for services rendered by an employee. These include employee benefits such as salaries, bonuses, housing allowance, medical and other contributions, which are recognised in the income statement during the period in which the employee renders the related service. Detailed policies can also be noted under the Employee Benefits note.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

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Accounting Policies

1.13 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

All Actuarial gains and losses are recognised immediately in surplus or deficit when they occur.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1.15 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Recognition

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

- a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Measurement

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable taking into account the amount of any discounts and rebates allowed by the entity. Fair value is the amount for which an asset could be exchanged, or a liability, between knowledgeable, willing parties in an arm's length transaction.

Service charges relating to electricity are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

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1.15 Revenue from exchange transactions (continued)

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

1.16 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when the fine is issued.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Government grants

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Unspent conditional grants

For all conditional grants, a corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. The unspent conditional grant liability is disclosed in the Statement of Financial Position.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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1.17 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Change in Accounting Policies, Estimates and Errors

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of the changes in estimates are disclosed in the notes to the financial statements where applicable.

1.21 Prepayments

The amount is not taken to profit or loss and other comprehensive income as an expense but disclosed as a current asset in the statement of financial position. The expense is only raised when it is incurred.

1.22 Accumulated Surplus

Included in the accumulated surplus is the previous years profits as well as the effects of changes in accounting policies and correction of errors.

1.23 iGRAP 1 - Probability of revenue

Initial Recognition

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured.

Subsequent measurement

Subsequently, the collectability of the revenue is assessed and an impairment loss is recognised where appropriate.

1.24 VAT

The Municipality accounts for Value Added Tax on the payments basis. This means that VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

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Accounting Policies

1.25 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

1.26 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.27 Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes. A distinction is made between capital and current commitments. Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are to be non-cancelable or only cancelable at significant cost contracts should relate to something other than the business of the municipality.

1.28 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund.

Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The following provisions are set for the creation and utilisation of the Housing Development Fund:

- The Housing Development Fund is cash-backed, and invested in accordance with the investment policy of the municipality.
- The proceeds in this fund are utilised for housing development in accordance with the National Housing Policy, and also for housing development projects approved by the MEC for Human Settlements.
- Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.
- Interest earned on the investments of the fund is disclosed as interest earned in the Statement of Financial Performance.

1.29 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.30 Deferred revenue

The calculation is done on the week commencing 15 June with the assumption that the electricity purchased in the first and second week of the month will be consumed of the financial year.

An average tariff has been applied for domestic as the municipality is on stepped tariff.

The average daily consumption is over 30,417 days for the financial year.

The indegent is not deferred.

1.31 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.32 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.31 New standards and interpretations

1.31.1 Standards and interpretations effective and adopted in the current year,

GRAP 108 on statutory receivable

IGRAP 19 on Liabilities to Pay Levies

IGRAP 18 on Recognition and Derecognition of Land

GRAP 32 on Service Concession Arrangements: Grantor

GRAP20 on Related Party Transaction

GRAP109 on Accounting by Principal and Agents

IGRAP17 on Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|----------------------------|-------------------------|-----------------------|
| 2. Inventories | | |
| Consumable stores | 1,536,766 | 973,483 |
| COVID-19 PPE | 166,405 | - |
| Medallions - at cost | 2,669 | 2,669 |
| | <u>1,705,840</u> | <u>976,152</u> |
| Obsolete stock written off | (3,246) | (2,379) |
| | <u>1,702,594</u> | <u>973,773</u> |

No inventory is held as security in the Matatiele Local Municipality.

3. Receivables from non-exchange transactions

| | | |
|--------------------------------------|--------------------------|--------------------------|
| Rates from non exchange transactions | 89,482,108 | 75,482,770 |
| Sundry Debtors | 31,488,429 | 28,230,709 |
| Traffic Fines Debtor | 3,606,149 | 7,699,344 |
| Other Debtors | - | 740,686 |
| Impairment | (37,491,447) | (30,849,730) |
| | <u>87,085,239</u> | <u>81,303,779</u> |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-------------------|-------------------|
| 3. Receivables from non-exchange transactions (continued) | | |
| Rates from non exchange transactions | | |
| Current | 873,116 | 763,875 |
| 31-60 days | 877,121 | 771,624 |
| 61-90 days | 1,674,464 | 1,292,560 |
| 91-120 days | 1,570,831 | 1,193,116 |
| 121-360 days | 9,728,671 | 1,227,228 |
| Over 360 days | 74,758,146 | 70,234,367 |
| Impairment | (31,311,454) | (25,577,217) |
| | 58,170,895 | 49,905,553 |
| Sundry Debtors from non exchange transactions | | |
| Current | 289,150 | 65,348 |
| 31-60 days | 6,442,931 | 53,744 |
| 61-90 days | 35,495 | 25,775 |
| 91-120 days | 34,407 | 27,561 |
| 121-360 days | 618,294 | 3,408,205 |
| over 360 days | 24,068,152 | 24,650,076 |
| Impairment | (3,564,333) | (2,898,632) |
| | 27,924,096 | 25,332,077 |
| Traffic Fines from non exchange transactions | | |
| Current | - | 4,162,114 |
| 31 - 60 days | 437,250 | - |
| 91 - 120 days | 377,100 | 1,077,560 |
| 121 - 360 days | 289,600 | 2,459,671 |
| Over 360 days | 2,502,199 | - |
| Impairment | (2,615,660) | (2,373,881) |
| | 990,489 | 5,325,464 |
| Sundry Debtors classification by type | | |
| Consumers | | |
| Current | 15,986 | 16,771 |
| 31 - 60 days | 15,986 | 15,174 |
| 61 - 90 days | 16,046 | 8,845 |
| 91 - 120 days | 16,046 | 18,732 |
| 121 - 365 days | 494,909 | 473,480 |
| Over 365 days | 2,841,136 | 2,190,619 |
| | 3,400,109 | 2,723,621 |
| Industrial | | |
| Current | 262,037 | 41,957 |
| 31 -60 days | 6,415,818 | 32,248 |
| 61 - 90 days | 6,651 | 10,607 |
| 91 - 120 days | 5,559 | 2,507 |
| 121 - 365 days | 39,931 | 14,929 |
| Over 360 days | 11,776,121 | 16,232,677 |
| | 18,506,117 | 16,334,925 |
| Government | | |
| Current | 11,126 | 6,620 |
| 30 - 60 days | 11,127 | 6,322 |
| 61 - 90 days | 12,798 | 6,322 |
| 91 - 120 days | 12,801 | 6,323 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|------------------|------------------|
| 3. Receivables from non-exchange transactions (continued) | | |
| 121 - 365 days | 83,454 | 460,125 |
| Over 365 days | 9,450,895 | 8,686,450 |
| | 9,582,201 | 9,172,162 |

4. VAT receivable

| | | |
|-----|------------|-----------|
| VAT | 12,101,681 | 3,679,487 |
|-----|------------|-----------|

VAT is declared on the payments basis. Once payment is received from debtors and payments made to creditors, VAT is declared to SARS.

Prior year debt write off was expensed inclusive of the VAT portion. The 2018/19 VAT and Debt Impairment figures has been adjusted as per the Correction of Error Note 49.

5. Prepayments

| | | |
|------------------------------|------------------|------------------|
| Council Chamber Advance paid | 780,622 | 780,622 |
| Eskom Mountain View Deposit | 3,680,000 | 3,704,817 |
| | 4,460,622 | 4,485,439 |

The amount R3 680 000 (2019: R 3 704 817) was paid towards the project (Mountain view substation) and Council Chamber an amount of R 780 622 (2019: R 780 622) as an advance.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---|---------------------|---------------------|
| 6. Trade receivables from exchange transactions | | |
| Gross balances | | |
| Electricity from exchange transactions | 6,394,541 | 6,099,622 |
| Refuse from exchange transactions | 18,922,972 | 16,078,472 |
| Interest accrued from investments | 76,379 | 210,026 |
| | 25,393,892 | 22,388,120 |
| Less: Allowance for impairment | | |
| Electricity from exchange transactions | (532,948) | (340,206) |
| Refuse from exchange transactions | (16,603,054) | (14,161,993) |
| | (17,136,002) | (14,502,199) |
| Net balance | | |
| Electricity from exchange transactions | 5,861,593 | 5,759,417 |
| Refuse from exchange transactions | 2,319,918 | 1,916,479 |
| Interest accrued from investments | 76,379 | 210,026 |
| | 8,257,890 | 7,885,922 |
| Electricity | | |
| Current (0 -30 days) | 3,220,964 | 2,782,481 |
| 31 - 60 days | 875,887 | 918,707 |
| 61 - 90 days | 493,570 | 511,847 |
| 91 - 120 days | 531,381 | 152,594 |
| 121 - 365 days | 893,496 | 251,772 |
| > 365 days | 379,242 | 1,482,223 |
| | 6,394,540 | 6,099,624 |
| Refuse | | |
| Current (0 -30 days) | 808,811 | 766,688 |
| 31 - 60 days | 599,925 | 503,019 |
| 61 - 90 days | 489,378 | 384,127 |
| 91 - 120 days | 442,001 | 305,049 |
| 121 - 365 days | 2,124,207 | 284,352 |
| > 365 days | 14,458,650 | 13,835,237 |
| | 18,922,972 | 16,078,472 |
| Other | | |
| > 365 days | 76,379 | 210,026 |
| Summary of debtors by customer classification electricity and refuse | | |
| Consumers | | |
| Current (0 -30 days) | 523,674 | 508,443 |
| 31 - 60 days | 473,993 | 400,021 |
| 61 - 90 days | 418,521 | 331,189 |
| 91 - 120 days | 397,805 | 284,482 |
| 121 - 365 days | 2,001,842 | 260,938 |
| > 365 days | 14,026,815 | 13,437,451 |
| | 17,842,650 | 15,222,524 |
| Less: Allowance for impairment | (16,118,340) | (13,810,207) |
| | 1,724,310 | 1,412,317 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|---------------------|---------------------|
| 6. Trade receivables from exchange transactions (continued) | | |
| Industrial / commercial | | |
| Current (0 -30 days) | 2,740,475 | 2,209,900 |
| 31 - 60 days | 344,977 | 440,123 |
| 61 - 90 days | 128,108 | 108,228 |
| 91 - 120 days | 160,153 | 65,116 |
| 121 - 365 days | 304,221 | 63,869 |
| > 365 days | 750,591 | 683,216 |
| | 4,428,525 | 3,570,452 |
| Less: Allowance for impairment | (1,017,662) | (691,994) |
| | 3,410,863 | 2,878,458 |
| National and provincial government | | |
| Current (0 -30 days) | 765,626 | 830,826 |
| 31 - 60 days | 656,842 | 579,775 |
| 61 - 90 days | 436,319 | 456,557 |
| 91 - 120 days | 415,423 | 129,628 |
| 121 - 365 days | 711,640 | 211,552 |
| > 365 days | 60,486 | 1,176,780 |
| | 3,046,336 | 3,385,118 |
| Total | | |
| Current (0 -30 days) | 4,029,775 | 5,885,922 |
| 31 - 60 days | 1,475,812 | 1,419,492 |
| 61 - 90 days | 982,948 | - |
| 91 - 120 days | 973,381 | 463,041 |
| 121 - 365 days | 3,017,703 | 536,124 |
| > 365 days | 14,914,273 | 14,083,541 |
| | 25,393,892 | 22,388,120 |
| Less: Allowance for impairment | (17,136,003) | (14,502,200) |
| | 8,257,889 | 7,885,920 |
| Reconciliation of allowance for impairment | | |
| Balance at beginning of the year | (14,502,199) | (8,012,967) |
| Contributions to allowance | (2,633,803) | (6,489,232) |
| | (17,136,002) | (14,502,199) |

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired.

As of 30 June 2020, consumer debtors of R 4 622 383 (2019: R 1 289 989) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
|-------------------|-----------|---------|
| 1 month past due | 3,259,333 | 558,779 |
| 2 months past due | 815,799 | 400,021 |
| 3 months past due | 545,562 | 331,189 |

Consumer debtors impaired

As of 30 June 2020, consumer debtors of R 17 136 002 (2019: R 12 810 205) were impaired and provided for.

The amount of the provision was R 17 136 002 (2019: R 13 810 205) as of 30 June 2020.

The ageing of these debtors is as follows:

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|--------------------|--------------------|
| 6. Trade receivables from exchange transactions (continued) | | |
| 3 to 6 months | 1,323,079 | 1,785,016 |
| Over 6 months | 15,813,923 | 13,437,451 |
| 7. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 1,250 | 1,250 |
| Bank balances | 8,309,071 | 11,399,620 |
| Short-term deposits | 144,774,895 | 112,596,592 |
| | 153,085,216 | 123,997,462 |

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | Cash book balances | |
|---|-------------------------|--------------------|--------------------|--------------------|
| | 30 June 2020 | 30 June 2019 | 30 June 2020 | 30 June 2019 |
| Nedbank - Current Account (main) - 1011292106 | 4,118,418 | 11,026,464 | 1,865,473 | 10,409,097 |
| Standard Bank- Current Account - 060435224 | 5,884,042 | 339,707 | 5,884,042 | 339,707 |
| First National Bank - Current Account - 62108495187 | 559,555 | 650,815 | 559,555 | 650,815 |
| Standard Bank - 60 Day Notice Account - 68600704/001 | 11,084,582 | 21,805,637 | 11,084,582 | 21,805,637 |
| Standard Bank - 60 Day Notice Account - 68600704/002 | 10,835,542 | - | 10,835,542 | - |
| First National Bank - Money Market - 62108496573 | 6,805,414 | 6,805,414 | 6,805,414 | 6,805,414 |
| NedBank - Call Account - 03/77881006129/000004 | 31,348,913 | 46,425,772 | 31,348,913 | 46,425,772 |
| NedBank - Call Account - 03/7881120797/000001 | 338,214 | 2,896,956 | 338,214 | 2,896,956 |
| NedBank- Call Account - 03/7881127902 | - | 9,428,544 | - | 9,428,544 |
| NedBank - 32 day Notice - 03/7881006129/0006 | 6,147,790 | 5,769,619 | 6,147,790 | 5,769,619 |
| First National Bank - Money Market - 62215611121 | 1,932,765 | 1,851,756 | 1,932,765 | 1,851,756 |
| First National Bank -Money Market - 62286478906 | 588,165 | 563,576 | 588,165 | 563,576 |
| NedBank-Call Account -03/7881134496/000001 | 52,876 | 49,995 | 52,876 | 49,995 |
| NedBank-Call Account -03/7881134550 | - | 5,245,037 | - | 5,245,037 |
| Nedbank - Electrification -03/7881140356 | 263,979 | 249,602 | 263,979 | 249,602 |
| Standard Bank Call Account - 68600704/002 | 20,116,186 | 10,324,622 | 20,116,186 | 10,324,622 |
| Nedbank MIG - 7881096624/00001 | 65,817 | 997,957 | 65,817 | 997,957 |
| First National Bank - 62175310045 | 190,023 | 182,105 | 190,023 | 182,105 |
| Nedbank - 03/7881006129-000009 | 54,168,548 | - | 54,168,548 | - |
| Nedbank - Disaster Relief Fund - 03/7881160276-000001 | 745,893 | - | 745,893 | - |
| Nedbank - COVID-19 Solidarity Fund - 03/7881160454-000001 | 90,189 | - | 90,189 | - |
| Total | 155,336,911 | 124,613,578 | 153,083,966 | 123,996,211 |

No investments that are held with an unregistered banks on behalf of Matatiele Local Municipality.

8. Investment property

| | 2020 | | | 2019 | | |
|---------------------|---------------------|---------------------------|----------------|---------------------|---------------------------|----------------|
| | Cost / Valuation | Accumulated impairment | Carrying value | Cost / Valuation | Accumulated impairment | Carrying value |
| Investment property | 35,574,602 | - | 35,574,602 | 35,574,602 | - | 35,574,602 |

Reconciliation of investment property - 2020

| | Opening balance | Total |
|---------------------|--------------------|------------|
| Investment property | 35,574,602 | 35,574,602 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

8. Investment property (continued)

Reconciliation of investment property - 2019

| | Opening balance | Fair value adjustment | Total |
|---------------------|--------------------|--------------------------|------------|
| Investment property | 17,738,052 | 17,836,550 | 35,574,602 |

All of the municipality's investment properties are held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality and are held for capital appreciation.

There are no restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on investment property.

A register of Investment property is available at the municipal offices.

The effective date of revaluations was 1 July 2018.

The valuation was performed using data based on arms length transactions and related market evidence.

This was done by an independent and professional valuer with the Registration Number 70006/09, a member of SAIV (South African Institute of Valuers) by the name of Tshepo Patrick Mokhuwa.

| | | |
|----------------|---------|-----------|
| Rental revenue | 803,197 | 1,009,266 |
|----------------|---------|-----------|

9. Property, plant and equipment

| | 2020 | | | 2019 | | |
|--|----------------------|--|----------------------|----------------------|--|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 20,857,699 | - | 20,857,699 | 20,857,700 | - | 20,857,700 |
| Buildings | 82,258,878 | (15,655,777) | 66,603,101 | 83,879,568 | (13,940,417) | 69,939,151 |
| Infrastructure | 518,527,877 | (64,927,756) | 453,600,121 | 485,490,652 | (34,101,260) | 451,389,392 |
| Community | 186,482,177 | (66,071,672) | 120,410,505 | 185,119,031 | (59,698,314) | 125,420,715 |
| Other property, plant and equipment | 101,786,391 | (58,407,072) | 43,379,319 | 65,180,159 | (19,590,580) | 45,589,580 |
| Capital under construction | 339,604,318 | - | 339,604,318 | 223,461,821 | - | 223,461,823 |
| Total | 1,249,517,340 | (205,062,277) | 1,044,455,063 | 1,063,988,931 | (127,330,571) | 936,658,361 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

| | Opening balance | Additions | Other Adjustments | Transfers | Depreciation | Total |
|-------------------------------------|--------------------|--------------------|-------------------|--------------|---------------------|----------------------|
| Land | 20,857,700 | - | - | - | - | 20,857,699 |
| Buildings | 69,939,151 | 121,931 | - | - | (3,457,980) | 66,603,101 |
| Infrastructure | 451,389,392 | 943,652 | - | 32,057,835 | (30,790,759) | 453,600,121 |
| Community | 125,420,715 | - | - | 1,363,143 | (6,373,358) | 120,410,505 |
| Other property, plant and equipment | 45,589,580 | 3,923,885 | (26,400) | - | (6,107,752) | 43,379,318 |
| Capital under construction | 223,461,821 | 150,247,657 | (684,184) | (33,420,978) | - | 339,604,318 |
| | 936,658,359 | 155,237,125 | (710,584) | - | (46,729,849) | 1,044,455,062 |

Reconciliation of property, plant and equipment - 2019

| | Opening balance | Additions | Disposals | Transfers | Correction of Revaluations error | Other changes, movements | Depreciation | Impairment loss | Total |
|-------------------------------------|--------------------|--------------------|----------------------|--------------|----------------------------------|--------------------------|---------------------|------------------|--------------------|
| Land | 17,897,987 | 154,000 | - | - | - | - | - | - | 20,857,700 |
| Buildings | 46,888,576 | 179,450 | - | - | - | - | (3,453,916) | - | 69,939,151 |
| Infrastructure | 450,944,867 | 1,334,328 | - | 26,829,714 | 1,557,057 | - | (29,276,572) | - | 451,389,394 |
| Community | 90,449,181 | 718,402 | - | 4,490,279 | - | 2,719,620 | (6,849,840) | - | 125,420,717 |
| Other property, plant and equipment | 35,796,405 | 9,663,944 | (7,135,825) | 11,772,478 | - | - | (4,377,659) | (129,764) | 45,589,579 |
| Capital under construction | 262,731,179 | 121,297,062 | (115,916,890) | (43,092,471) | (1,557,057) | - | - | - | 223,461,821 |
| | 904,708,195 | 133,347,186 | (123,052,715) | - | - | 63,023,829 | (43,957,987) | (129,764) | 936,658,362 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

9. Property, plant and equipment (continued)

9.1 Property, plant and equipment - Capitalised Restoration Cost

| | | |
|---|------------|------------|
| Capitalised Restoration Cost - Carrying Value | 13,612,622 | 14,126,367 |
|---|------------|------------|

The movement in capitalised restoration cost is reconciled as follows:

| | | |
|---------------------------|-------------------|-------------------|
| Cost | 14,640,112 | 14,640,112 |
| Accumulated Depreciation | (513,745) | (513,745) |
| Current Year Depreciation | (513,745) | - |
| | 13,612,622 | 14,126,367 |

The municipality is required by relevant Environmental Legislation to rehabilitate landfill site at the closure date. The "Capitalised Restoration Cost" asset, which is capitalised in line with the requirements of GRAP 17 and iGRAP 2, relates to the initial estimate of costs involved to restore landfill site under control of the Matatiele Local Municipality.

Although this item is accounted for under Property, Plant and Equipment Standard (GRAP 17), the characteristics and nature of this item does not resemble that of normal PPE (such as the tangible nature of assets normally associated with PPE). Based on the aforementioned and in line with the requirements of GRAP 1, Capitalised Restoration Cost is disclosed as a separate item on the face of the Statement of Financial Position.

Refer to note 14 for more detail relating to this asset financed by way of a provision.

Repairs and Maintenance

| | | |
|----------------------|-------------------|-------------------|
| Repairs on buildings | 1,864,156 | 2,025,811 |
| Repairs on equipment | 3,305,444 | 2,927,454 |
| Repairs on mains | 7,959,984 | 7,103,462 |
| | 13,129,584 | 12,056,727 |

Reconciliation of Work-in-Progress 2020

| | Included within Infrastructure | Included within Community | Included within Other PPE | Total |
|-------------------------------|--------------------------------------|---------------------------------|---------------------------------|-------------|
| Additions/capital expenditure | 199,928,770 | 38,425,773 | 101,249,902 | 339,604,445 |

Reconciliation of Work-in-Progress 2019

| | Included within Infrastructure | Included within Community | Included within Other PPE | Total |
|-------------------------------|--------------------------------------|---------------------------------|---------------------------------|-------------|
| Additions/capital expenditure | 125,340,732 | 24,592,561 | 73,528,575 | 223,461,868 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

10. Intangible assets

| | 2020 | | | 2019 | | |
|-------------------|---------------------|-----------------------------|----------------|---------------------|-----------------------------|----------------|
| | Cost / Valuation | Accumulated amortisation | Carrying value | Cost / Valuation | Accumulated amortisation | Carrying value |
| Computer software | 4,402,203 | (4,069,536) | 332,667 | 3,994,883 | (3,581,802) | 413,081 |

Reconciliation of intangible assets - 2020

| | Opening balance | Additions | Amortisation | Total |
|-------------------|--------------------|-----------|--------------|---------|
| Computer software | 413,081 | 407,320 | (487,734) | 332,667 |

Reconciliation of intangible assets - 2019

| | Opening balance | Disposals | Amortisation | Total |
|-------------------|--------------------|-----------|--------------|---------|
| Computer software | 1,621,481 | (285,000) | (923,400) | 413,081 |

Other information

There is a register containing the information required by Section 63 of the MFMA which is available for inspection at the registered office of the Municipality.

None of the intangible assets are pledged as a security as at year end.

11. Payables from exchange transactions

| | | |
|----------------------------|-------------------|-------------------|
| Accrued expense | 10 | (15) |
| Bonus accrual | 2,186,796 | 2,782,716 |
| Income received in advance | 4,791,505 | 4,296,132 |
| Payable Water Services | 2,044,794 | 2,044,794 |
| Deposits Received | 1,041,164 | 795,203 |
| Trade payables | 38,916,257 | 34,045,791 |
| | 48,980,526 | 43,964,621 |

The average credit period on purchases is 30 days from the receipt of the statement, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

Income received in advance is due to payments received for hall hire, sale of municipal vacant plots and prepaid electricity

The management of the municipality is of the opinion that the carrying value of creditors approximate their fair values.

Bonus accrual is calculated on a 13th cheque attributable to all staff.

12. Consumer deposits

| | | |
|-------------|---------|---------|
| Electricity | 345,497 | 299,527 |
|-------------|---------|---------|

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

12. Consumer deposits (continued)

Consumers on application for electricity connections pay consumer deposits. The deposit is repaid when the connection is terminated. Consumer deposits are refunded to the owner when a house is sold after the municipality has issued a clearance certificate.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|----------------------|------------------|------------------|
| LED projects | 506,537 | 506,536 |
| Library upgrade | 1,028,103 | 547,245 |
| DME Elec INEP Grants | - | 1,964,220 |
| Other grants | 218,253 | 218,254 |
| | 1,752,893 | 3,236,255 |

Refer to note 24 for reconciliation of grants and receipts.

14. Provisions

Reconciliation of provisions - 2020

| | Opening Balance | Additions | Reduction due to re- measurement or settlement without cost to entity | Total |
|------------------------------|--------------------|------------------|--|-------------------|
| Environmental rehabilitation | 13,259,530 | - | (209,737) | 13,049,793 |
| Performance bonus | 798,500 | - | (146,275) | 652,224 |
| Leave | 9,969,818 | 1,376,381 | - | 11,346,199 |
| | 24,027,848 | 1,376,381 | (356,012) | 25,048,216 |

Reconciliation of provisions - 2019

| | Opening Balance | Additions | Reduction due to re- measurement or settlement without cost to entity | Total |
|------------------------------|--------------------|------------------|--|-------------------|
| Environmental rehabilitation | 12,443,069 | 816,461 | - | 13,259,530 |
| Performance bonus | 811,231 | - | (12,731) | 798,500 |
| Leave | 7,704,536 | 2,265,282 | - | 9,969,818 |
| | 20,958,836 | 3,081,743 | (12,731) | 24,027,848 |
| Non-current liabilities | | | 13,049,793 | 13,259,530 |
| Current liabilities | | | 11,998,424 | 10,768,318 |
| | | | 25,048,217 | 24,027,848 |

Performance Bonus

Performance bonuses accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

14. Provisions (continued)

Staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

Environmental rehabilitation provision

The minimum requirements for waste disposal by landfill as stated by the Department of Water Affairs and Forestry, " All land fills, except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be legally closed. Closure will involve, inter alia, the application of final cover, top soiling, vegetating, drainage maintenance and leachate management."

The financial implications for the rehabilitation of the landfill site were performed by Hendrik Adriaan Roets, who is registered with the South African Institution of Civil Engineering. This was carried out on the 11 June 2020 for the effective date, 30 June 2020. Currently no appointment for the closure has been made, and therefore estimates have been compiled. The provision is based on a 15 year estimation.

Landfill sites generally fall into 3 categories, which are separated by the size of the landfill, the type of waste and the amount of leachate produced. The land fill site closure design is based on it falling in the G:S:B+ formation which has the following capping layers:

- 200mm Topsoil
- 300mm Compacted clay

In calculating the provision for rehabilitation, the following four items have been included:

Direct contract costs - this equates to a unit cost of 90 Rand per square meter based on previous closure of the Ducats landfill. Unit costs are used to estimate rehabilitation costs until a service provider is appointed to perform an investigation and design

Indirect professional fees - these fees are fixed and are based on a percentage of the contract.

Indirect disbursements - These are estimated by obtaining quotations from third party service providers for similar works.

Escalation has also been considered and included in the costs.

The monetary value for the provision for the landfill site at 30 June 2020 is R 13 049 792 (2019: R 13 259 530)

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

14. Provisions (continued)

Environmental rehabilitation provision

| | | |
|--|------------|------------|
| Rehabilitation Provision - Landfill Site | 13,049,792 | 13,259,530 |
|--|------------|------------|

The movement in Rehabilitation Provision - Landfill Site are reconciled as follows:

| | | |
|--|-------------------|-------------------|
| Opening Balance | 13,259,530 | 12,443,069 |
| Contribution/(reduction) during the year | (209,738) | 816,461 |
| | 13,049,792 | 13,259,530 |

It is estimated that the site will not be rehabilitated within 1 year from the reporting date and thus there is no short term portion associated with this provision. The timing of the outflow of resources relating to this provision is uncertain, but management expects the timing to be in line with the legal requirement subsequent to the expected closure date of the site as indicated below.

The total obligation at year-end is attributed to the following site:

| Site | Expected Closure Date | | |
|-------------------------|--------------------------|------------|------------|
| Matatiele Landfill Site | 2023 | 13,049,792 | 13,259,530 |

The Environmental Specialists were utilised to determine the cost of rehabilitation of landfill site as well to assist the municipality in identifying any changes (if any) to estimated to estimated closure dates previously reported on in former entities.

The estimated area per site to be rehabilitated at year end were as follow (Rehabilitaion area - per metre squared).

| | | |
|-------------------------|---------|---------|
| Matatiele Landfill Site | 150,000 | 150,000 |
|-------------------------|---------|---------|

The cost of rehabilitaion per square metre is based on the current cost of construction at each reporting period. The cost per square metre were estimated as follows:

| | | |
|-------------------------|----|----|
| Matatiele Landfill Site | 88 | 88 |
|-------------------------|----|----|

15. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value

| | | |
|---|-------------------------|-----------------------|
| Present value of the defined benefit obligation-wholly unfunded | 15,215,831 (100,828) | 14,867,968 347,863 |
| | 15,115,003 | 15,215,831 |
| Non-current assets | 687,624 | - |
| Non-current liabilities | (15,978,627) | (15,215,831) |
| | (15,291,003) | (15,215,831) |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---|-------------------|-------------------|
| 15. Employee benefit obligations (continued) | | |
| Changes in the present value of the defined benefit obligation are as follows: | | |
| Opening balance | 11,930,649 | 11,682,447 |
| Contributions by plan participants | (624,450) | (556,015) |
| Net expense recognised in the statement of financial performance | 1,068,380 | 804,217 |
| | 12,374,579 | 11,930,649 |

Net expense recognised in the statement of financial performance

| | | |
|--------------------------|------------------|----------------|
| Current service cost | 1,649,564 | 1,765,491 |
| Interest cost | 1,325,339 | 1,376,666 |
| Actuarial (gains) losses | (1,906,523) | (2,337,940) |
| | 1,068,380 | 804,217 |

Key assumptions used

Assumptions used at the reporting date:

| | | |
|---|--------|--------|
| Actual return on plan assets | 62 | 62 |
| Discount rates used | 9.35 % | 9.35 % |
| Expected rate of return on assets | 7.98 % | 7.98 % |
| Expected rate of return on reimbursement rights | 1.60 % | 1.60 % |

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

| | One percentage point increase | One percentage point decrease |
|---|-------------------------------------|--|
| Effect on the aggregate of the service cost and interest cost | 3,183,679 | 3,152,157 |
| Effect on defined benefit obligation | 12,585,610 | 12,461,000 |

Amounts for the current and previous four year are as follows:

| | 2020 R | 2019 R | 2018 R | 2017 R | 2016 R |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Defined benefit obligation | 15,291,003 | 15,215,831 | 15,269,222 | 13,489,265 | 10,789,296 |
| Surplus (deficit) | (15,291,003) | (15,215,831) | (15,269,222) | (13,489,265) | (10,789,296) |

16. Revaluation reserve

| | | |
|------------------------|--------------------|--------------------|
| Opening balance | 230,445,832 | 167,422,003 |
| Change during the year | - | 63,023,829 |
| | 230,445,832 | 230,445,832 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|--------------------|--------------------|
| 16. Revaluation reserve (continued) | | |
| <p>The revaluation reserve arose on the revaluation of land and buildings and infrastructure asset in prior periods. Where revalued land and buildings and infrastructure assets are sold, the portion of the revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to accumulated surplus. The revaluation reserve is also realised through the transfer of depreciation on revalued assets to accumulated surplus. Distribution from the revaluation reserve can be made where they are in accordance with the requirements of the municipality's accounting policy and relevant case law. The payment of cash distribution out of the reserve is restricted by the terms of the municipality's accounting policy. These restrictions do not apply to any amounts transferred to accumulated surplus. The council does not currently intend to make any distributions from the revaluation reserve.</p> | | |
| 17. Revenue | | |
| Fine receipts | 1,397,543 | 3,470,659 |
| Government grants & subsidies | 369,222,363 | 320,562,017 |
| Licences and permits | 2,557,070 | 3,279,009 |
| Interest received - investment | 24,528,113 | 20,109,004 |
| Other income | 2,569,432 | 2,459,008 |
| Property rates | 44,903,631 | 43,280,098 |
| Public contributions and donations | - | 2,873,871 |
| Rental of facilities and equipment | 803,197 | 853,155 |
| Service charges | 58,434,130 | 61,165,844 |
| Impairment reversal | 209,737 | - |
| | 504,625,216 | 458,052,665 |
| The amount included in revenue arising from exchanges of goods or services are as follows: | | |
| Interest received - investment | 24,528,113 | 20,109,004 |
| Licences and permits | 2,557,070 | 3,279,009 |
| Other income | 2,569,432 | 2,459,008 |
| Rental of facilities and equipment | 803,197 | 853,155 |
| Service charges | 58,434,130 | 61,165,844 |
| Impairment reversal | 209,737 | - |
| | 89,101,679 | 87,866,020 |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Taxation revenue | | |
| Property rates | 44,903,631 | 43,280,098 |
| Transfer revenue | | |
| Fine receipts | 1,397,543 | 3,470,659 |
| Government grants & subsidies | 369,222,363 | 320,562,017 |
| Public contributions and donations | - | 2,873,871 |
| | 415,523,537 | 370,186,645 |
| 18. Service charges | | |
| Refuse removal | 10,789,616 | 10,009,334 |
| Sale of electricity | 47,644,514 | 51,156,510 |
| | 58,434,130 | 61,165,844 |

The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---|-------------------|-------------------|
| 19. Rental of facilities and equipment | | |
| Hall Hire | 130,670 | 154,075 |
| Site Rental | 659,433 | 681,671 |
| Stadium Hire | 13,094 | 17,409 |
| | 803,197 | 853,155 |
| 20. Licenses and permits | | |
| Drivers and Motor Vehicle licenses | 2,493,259 | 3,242,893 |
| Fishing licenses | 18,630 | 20,565 |
| Hoarding permits | 2,739 | 4,130 |
| Business licenses | 42,442 | 11,421 |
| | 2,557,070 | 3,279,009 |
| 21. Other income | | |
| Ticket Sales | 76,999 | - |
| Sundry services | 505,174 | 17,800 |
| Rezoning certificates | 53,724 | 13,849 |
| Pool fees | 48,459 | 42,141 |
| Rates certificates | 23,041 | 21,645 |
| Building plans | 150,330 | 167,482 |
| Camping Fees | 4,266 | 6,002 |
| Commission fees | 33,142 | 29,667 |
| Photo copies | - | 36 |
| Cemetery fees | 87,711 | 76,246 |
| Tender documents | 446,119 | 536,024 |
| Actuarial gains | 766,350 | 1,172,102 |
| Sub-division planning | 25,477 | 11,684 |
| SETA refund | 327,373 | 213,164 |
| Special consent | 7,002 | 30,037 |
| Temporary structure planning | 2,839 | 8,643 |
| Discount Received | - | 101,094 |
| Demolition fees | 11,426 | 11,392 |
| | 2,569,432 | 2,459,008 |
| The amounts disclosed above for other income are in respect of services rendered which are billed to or paid for by the users as the services are required according to approved tariffs. | | |
| 22. Interest received | | |
| Interest revenue | | |
| Interest on short-term bank deposits | 12,973,083 | 10,495,104 |
| Interest on Electricity and rates | 11,555,030 | 9,613,900 |
| | 24,528,113 | 20,109,004 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---------------------------|-------------------|-------------------|
| 23. Property rates | | |
| Rates | | |
| Residential | 6,225,860 | 6,259,063 |
| Commercial | 6,892,879 | 5,440,270 |
| Vacant Land | 702,737 | 720,796 |
| Municipal | 29,804,558 | 28,387,054 |
| Communal land | 1,277,597 | 2,472,915 |
| | 44,903,631 | 43,280,098 |

Supplementary assessment rates are levied on the value of land and improvements, for which a valuation is performed every five years. Valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A new valuation roll has been implemented from 1 July 2018.

Valuations

| | | |
|--|----------------------|----------------------|
| Residential | 1,373,509,889 | 1,409,345,334 |
| Commercial | 890,103,363 | 912,404,923 |
| State | 1,242,368,411 | 1,254,998,411 |
| Vacant land | 37,120,810 | 38,704,310 |
| Municipal and Local Government (Rural) | 1,483,552,385 | 1,483,552,385 |
| Exempted properties | 390,692,480 | 394,712,480 |
| | 5,417,347,338 | 5,493,717,843 |

24. Government grants and subsidies

Operating grants

| | | |
|---|--------------------|--------------------|
| Equitable share | 234,919,220 | 207,642,000 |
| COVID-19 relief grant | 745,000 | - |
| Local government financial management grant | 1,700,000 | 1,701,126 |
| Expanded public works programme integrated | 3,257,000 | 3,185,000 |
| | 240,621,220 | 212,528,126 |

Capital grants

| | | |
|---|--------------------|--------------------|
| Integrated national electrification programme | 70,177,000 | 43,079,749 |
| Library Upgrade | 169,143 | 1,064,953 |
| Municipal infrastructure grant | 58,255,000 | 63,720,700 |
| Other Grants | - | 168,489 |
| | 128,601,143 | 108,033,891 |
| | 369,222,363 | 320,562,017 |

Equitable Share

In terms of the Constitution, this grant is used unconditionally for the provisioning of basic services to support indigent communities.

National: Financial management grant

| | | |
|---|-------------|-------------|
| Balance unspent at beginning of year | - | 1,126 |
| Current-year receipts | 1,700,000 | 1,700,000 |
| Conditions met - transferred to revenue | (1,700,000) | (1,701,126) |
| | - | - |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|--------------|--------------|
| 24. Government grants and subsidies (continued) | | |
| National: Municipal infrastructure grant | | |
| Balance unspent at beginning of year | - | 4,030,700 |
| Current-year receipts | 58,255,000 | 59,690,000 |
| Conditions met - transferred to revenue | (58,255,000) | (63,720,700) |
| | - | - |
| National: Integrated national electrification grant | | |
| Balance unspent at beginning of year | 1,964,221 | 3,883,970 |
| Current-year receipts | 70,177,000 | 41,160,000 |
| Conditions met - transferred to revenue | (70,177,000) | (43,079,749) |
| National Treasury forfeited funds | (1,964,221) | - |
| | - | 1,964,221 |
| Provincial government establishment plan | | |
| Balance unspent at beginning of year | - | 63,798 |
| Conditions met - transferred to revenue | - | (63,798) |
| | - | - |
| Local government IDP fund | | |
| Balance unspent at beginning of year | - | 59,683 |
| Conditions met - transferred to revenue | - | (59,683) |
| | - | - |
| Library upgrade | | |
| Balance unspent at beginning of year | 547,245 | 1,012,200 |
| Current-year receipts | 650,000 | 600,000 |
| Conditions met - transferred to revenue | (169,143) | (1,064,955) |
| | 1,028,102 | 547,245 |
| Conditions still to be met - remain liabilities (see note 13). | | |
| Spatial Development | | |
| Balance unspent at beginning of year | - | 43,865 |
| Conditions met - transferred to revenue | - | (43,865) |
| | - | - |
| Expanded public works programme | | |
| Current-year receipts | 3,257,000 | 3,185,000 |
| Conditions met - transferred to revenue | (3,257,000) | (3,185,000) |
| | - | - |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|--------------------|--------------------|
| 24. Government grants and subsidies (continued) | | |
| LED Projects | | |
| Balance unspent at beginning of year | 506,536 | 506,536 |
| Conditions still to be met - remain liabilities (see note 13). | | |
| COVID-19 Relief Grant | | |
| Current-year receipts | 745,000 | - |
| Conditions met - transferred to revenue | (745,000) | - |
| | - | - |
| Other Grants | | |
| Balance unspent at beginning of year | 218,254 | 219,396 |
| Conditions met - transferred to revenue | - | (1,142) |
| | 218,254 | 218,254 |
| Conditions still to be met - remain liabilities (see note 13). | | |
| 25. Fine receipts | | |
| Traffic fines | 1,397,543 | 3,470,659 |
| 26. Employee related costs | | |
| Basic | 78,516,102 | 73,276,718 |
| Bonus | 4,651,407 | 4,496,263 |
| Overtime payments | 2,359,112 | 2,507,766 |
| Car allowance | 4,728,897 | 4,792,207 |
| Contribution to bonus and post retirement provision | 25,830 | 455,941 |
| Defined contribution plans | 11,679,476 | 11,505,240 |
| Housing benefits and allowances | 4,740,725 | 4,771,279 |
| Leave pay provision charge | 2,989,828 | 2,986,950 |
| Long-service awards | 243,137 | 301,598 |
| Medical aid - company contributions | 3,781,517 | 3,414,331 |
| Cellular and telephone Allowances | 6,000 | 6,000 |
| SDL | 1,131,035 | 1,123,592 |
| UIF | 548,699 | 562,727 |
| | 115,401,765 | 110,200,612 |
| Remuneration of Municipal Manager | | |
| Annual Remuneration | 5,259,272 | 914,774 |
| Car Allowance | 311,750 | 411,059 |
| Backpay | - | 23,036 |
| Contributions to UIF, Medical and Pension Funds | 1,338 | 1,785 |
| Remote Allowance | 70,816 | 94,421 |
| | 5,643,176 | 1,445,075 |

Dr D.C.T Nakin served as Municipal Manager from 1 July 2019 to 31 March 2020. Mr L Matiwane was an Acting Municipal Manager from 10 January 2020 until 26 January 2020. Mr V Mlokothe served as an Acting Municipal Manager from 27 January 2020 until the end of financial year under review. There are no acting allowances that the municipality paid.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---|----------------|----------------|
| 26. Employee related costs (continued) | | |
| Remuneration of Chief Financial Officer | | |
| Annual Remuneration | 291,285 | 639,215 |
| Car Allowance | 123,287 | 260,781 |
| Bonus | 40,000 | - |
| Contributions to UIF, Medical and Pension Funds | 1,190 | 1,636 |
| Housing Allowance | 123,287 | - |
| Remote Allowance | 41,741 | 64,318 |
| Back Pay | 18,438 | 18,829 |
| | 639,228 | 984,779 |

Mr K Mehlomakulu was appointed as acting Chief Financial Officer from 01/05/2019 to 31/10/2019. He was then appointed as Chief Financial Officer in November 2019.

Remuneration of Corporate Services General Manager

| | | |
|---|----------------|----------------|
| Annual Remuneration | 524,141 | 516,384 |
| Car Allowance | 131,519 | 122,045 |
| Contributions to UIF, Medical and Pension Funds | 41,871 | 39,333 |
| Backpay | 29,763 | 14,645 |
| Housing Allowance | 168,938 | 166,948 |
| Remote Allowance | 62,611 | 60,030 |
| | 958,843 | 919,385 |

Mr N.R Xolo served as Corporate Service General Manager for the entire period.

Remuneration of Community Services General Manager

| | | |
|---|------------------|------------------|
| Annual Remuneration | 266,115 | 367,556 |
| Backpay | 21,529 | 10,363 |
| Car Allowance | 394,864 | 317,423 |
| Contributions to UIF, Medical and Pension Funds | 57,875 | 113,267 |
| Housing Allowance | 394,864 | 317,423 |
| Remote Allowance | 79,343 | 75,185 |
| | 1,214,590 | 1,201,217 |

Mr S.M. Mbedla served as Community Services General Manager for the entire period .

Remuneration of the Economic Development Planning General Manager

| | | |
|---|------------------|------------------|
| Annual Remuneration | 348,000 | 460,038 |
| Backpay | 25,726 | 39,557 |
| Car Allowance | 379,868 | 302,853 |
| Contributions to UIF, Medical and Pension Funds | 1,785 | 1,785 |
| Housing allowance | 379,868 | 302,853 |
| Remote allowance | 79,343 | 75,825 |
| | 1,214,590 | 1,182,911 |

Miss T. Ntsalla served as Economic Development Planning General Manager for the entire period.

Matatiele Local Municipality

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Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---|----------------|----------------|
| 26. Employee related costs (continued) | | |
| Remuneration of the Infrastructure General Manager | | |
| Annual Remuneration | 311,733 | 289,166 |
| Car Allowance | 115,572 | 98,219 |
| Contributions to UIF, Medical and Pension Funds | 1,190 | 1,260 |
| Housing Allowance | 115,572 | 98,219 |
| Backpay | 53,421 | 14,645 |
| Remote Allowance | 41,741 | 35,018 |
| | 639,229 | 536,527 |

Mr Z Gqamane acted as a General Manager Infrastructure 01 May 2019 to 31 October 2019. Mr M Lehlehla was appointed General Manager Infrastructure Services from 1st November 2019.

Staff leave benefits

| | | |
|-------------------------|----------------|----------------|
| Municipal Manager | - | 155,614 |
| Chief Financial Officer | 44,715 | 101,762 |
| Community Services | 147,109 | 96,461 |
| EDP Manager | 126,405 | 84,802 |
| Corporate | 123,827 | 101,762 |
| Infrastructure | 41,276 | - |
| | 483,332 | 540,401 |

27. Remuneration of councillors

| | | |
|---------------------|-------------------|-------------------|
| Mayor | 905,259 | 872,149 |
| Speaker | 733,088 | 706,600 |
| Chief Whip | 690,046 | 665,213 |
| MPAC Chair | 677,074 | 652,740 |
| Executive Committee | 4,783,149 | 4,521,743 |
| Councillors | 12,658,596 | 12,207,740 |
| | 20,447,212 | 19,626,185 |

Matatiele Local Municipality

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Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---|-------------------|-------------------|
| 27. Remuneration of councillors (continued) | | |
| In-kind benefits | | |
| The Mayor and the Speaker are full-time Councillors each have the use of separate Council owned vehicles for official duties. | | |
| The Mayor has one driver and one mayoral aid. The Speaker has one driver and one speaker's aid. | | |
| Mayor | | |
| Remuneration | 860,859 | 827,749 |
| Telephone Allowance | 44,400 | 44,400 |
| | 905,259 | 872,149 |
| Speaker | | |
| Remuneration | 688,688 | 662,200 |
| Telephone Allowance | 44,400 | 44,400 |
| | 733,088 | 706,600 |
| Chief Whip | | |
| Remuneration | 645,646 | 620,813 |
| Telephone Allowance | 44,400 | 44,400 |
| | 690,046 | 665,213 |
| MPAC Chairperson | | |
| Remuneration | 632,674 | 608,340 |
| Telephone Allowance | 44,400 | 44,400 |
| | 677,074 | 652,740 |
| Executive Committee Members | | |
| Remuneration | 4,423,549 | 4,122,143 |
| Telephone Allowance | 359,600 | 399,600 |
| | 4,783,149 | 4,521,743 |
| Councillors (Section 79) | | |
| Remuneration | 699,235 | 608,340 |
| Telephone Allowance | 88,800 | 44,400 |
| | 788,035 | 652,740 |
| Councillors (Ordinary) | | |
| Remuneration | 10,337,373 | 10,165,335 |
| Telephone Allowance | 1,533,187 | 2,042,405 |
| | 11,870,560 | 12,207,740 |
| 28. Remuneration of traditional leaders | | |
| Remuneration of traditional leaders | 386,324 | 448,802 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-------------------|-------------------|
| 29. Depreciation and amortisation | | |
| Intangible assets | 487,734 | 983,479 |
| Property, plant and equipment | 47,243,594 | 47,557,018 |
| | 47,731,328 | 48,540,497 |
| 30. Impairment of assets | | |
| Impairments | | |
| Property, plant and equipment | - | 129,764 |
| The impairment is caused by Other Assets (assets written off). | | |
| 31. Finance costs | | |
| Late payments | 3,082 | 5,345 |
| 32. Debt impairment | | |
| Contributions to debt impairment provision | 13,883,601 | 5,001,244 |
| Prior year debt write off was expensed inclusive of the VAT portion. The 2018/19 VAT and Debt Impairment figures has been adjusted as per the Correction of Error Note 49. | | |
| 33. Material and stores | | |
| Material and stores | 4,192,167 | 3,645,783 |
| 34. Bulk purchases | | |
| Electricity | 39,938,390 | 39,260,295 |
| Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to consumers. Electricity is purchased from Eskom. The municipality incurred electricity line losses of R 1 361 263 at a percentage of 6.02% (2019: R 1 344 179 at a percentage of 5.23%) in the current year. | | |
| Water is supplied directly to residents and businesses by the district municipality. | | |
| 35. Contracted services | | |
| Consultants and professional fees | | |
| Legal Costs | 2,601,689 | 1,674,916 |
| Financial Services | 15,485,410 | 13,998,249 |
| Contractors | | |
| Debt Collection Consultants | 402,419 | 292,232 |
| Event Promoters | 2,119,964 | 34,919 |
| Employee Wellness | 303,743 | 253,649 |
| Repairs and Maintenance | 13,129,585 | 12,056,728 |
| Safe Guarding and Security | 9,128,564 | 9,423,930 |
| Outsource | | |
| Business and Advisory | 28,555,245 | 20,099,164 |
| Catering Services | 1,078,771 | 1,397,448 |
| Cleaning Services | 2,815,439 | 2,954,139 |
| Refuse Removal | 5,457,211 | 5,652,683 |
| | 81,078,040 | 67,838,057 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|--------------------|--------------------|
| 36. Operational Expenses | | |
| Achievement and Awards | 1,479,705 | 1,012,100 |
| Advertising | 967,323 | 1,370,718 |
| Bank charges | 254,329 | 202,702 |
| Bursaries and Learnerships | 1,508,250 | 1,557,324 |
| Communication | 199,800 | 314,000 |
| Conferences and seminars | 231,848 | 234,432 |
| Delegates expenses | 5,062,576 | 10,172,556 |
| Electricity | 359,574 | 340,511 |
| External Computer Services | 2,856,982 | 1,278,078 |
| Hire Charges | 1,146,249 | 1,146,930 |
| Insurance | 2,829,178 | 3,170,387 |
| Motor vehicle expenses | 104,134 | 140,206 |
| Obsolete stock written off | 3,246 | 2,379 |
| Other expenses | 2,316,287 | 2,729,387 |
| Audit fees | 3,884,540 | 5,441,941 |
| Postage and courier | 201,135 | 235,636 |
| Printing and stationery | 253,971 | 253,706 |
| Remuneration to ward committees | 3,069,000 | 3,080,000 |
| Subscriptions and membership fees | 1,283,730 | 1,285,863 |
| Telephone and fax | 2,453,852 | 2,296,911 |
| Transport Provided as Part of Departmental Activities | 434,312 | 474,866 |
| Uniforms and Protective Clothing | 1,355,265 | 944,351 |
| Wet Fuel and oil | 1,701,562 | 1,905,319 |
| | 33,956,848 | 39,590,304 |
| 37. Cash generated from operations | | |
| Surplus | 146,895,875 | 16,971,785 |
| Adjustments for: | | |
| Depreciation and amortisation | 47,731,328 | 48,540,496 |
| Loss on sale of assets and liabilities | 710,584 | 122,899,333 |
| Fair value adjustments | - | (17,071,800) |
| Impairment deficit | - | 129,764 |
| Debt impairment | 13,883,601 | 5,001,244 |
| Movements in retirement benefit assets and liabilities | 75,172 | (53,391) |
| Movements in provisions | 1,020,369 | 3,069,012 |
| Finance Costs | - | 5,239 |
| Correction of error - Non Cash prior year | - | 383,983 |
| Donations | - | (2,719,870) |
| Non-Cash items | - | 284,042 |
| Changes in working capital: | | |
| Inventories | (728,821) | (101) |
| Consumer debtors | (14,255,569) | 2,503,784 |
| Other receivables from non-exchange transactions | (5,781,460) | (38,868,256) |
| Prepayments | 24,817 | (3,704,817) |
| Payables from exchange transactions | 5,015,880 | (2,030,100) |
| VAT | (8,422,194) | 7,867,676 |
| Unspent conditional grants and receipts | (1,483,361) | (6,585,018) |
| Consumer deposits | 45,970 | 8,685 |
| | 184,732,191 | 136,631,690 |
| 38. Unauthorised expenditure | | |
| Unauthorised expenditure | 94,704 | 94,704 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---|-------------|------------------|
| 38. Unauthorised expenditure (continued) | | |
| Management did not identify unauthorised expenditure during the financial year, however it was identified during 2017/18 financial year audit. All items of unauthorised expenditure are still under investigation at 30 June 2020. | | |
| 39. Irregular expenditure | | |
| Opening balance | 9,370,387 | 2,234,967 |
| Add: Irregular Expenditure - current year | - | 7,135,420 |
| Less: Amounts written off | (9,370,387) | - |
| | - | 9,370,387 |

MPAC oversight report recommended that Council write off the expenditure and Council approved the report on the 26th of March 2020.

40. Fruitless and wasteful expenditure

| | | |
|--|---------------|---------------|
| Opening balance | 52,144 | 46,799 |
| Fruitless and wasteful expenditure- current year | 3,082 | 5,345 |
| | 55,226 | 52,144 |

Management identified this and a report has been prepared for council deliberation and its recommendations will be implemented to either recover monies or write offs where necessary. All items of fruitless and wasteful expenditure are still under investigation at 30 June 2020.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|------------------|-----------|
| 41. Operating lease | | |
| The Municipality had the following operating leases in the current year: | | |
| Kokstad Copiers - The leases are held on a monthly basis. No outstanding commitments. | | |
| Aloe Office - The lease agreement was completed in July 2019, the new lease is held on monthly basis. No outstanding commitments. | | |
| Nedbank - for a period of 36 months. At the reporting date the entity has outstanding commitments under operating leases which fall due as follows: | | |
| Within one year : | | R 80 565 |
| In the second to fifth year inclusive: | | |
| Maxitech - The lease is held on a monthly basis for hosting the website. No outstanding commitments. | | |
| Telkom - The lease is for a period of 5 years. | | |
| Up to 1 year | 480,421 | - |
| 2-5 years | 1,601,422 | - |
| | 2,081,843 | - |
| Telkom Internet - The lease is for a period of 5 years. | | |
| Up to 1 year | 326,417 | - |
| 2-5 years | 979,252 | - |
| | 1,305,669 | - |
| Telkom VPN - The lease is for a period of 5 years. | | |
| Up to 1 year | 382,017 | - |
| 2-5 years | 1,209,719 | - |
| | 1,591,736 | - |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

42. Contingencies

LIABILITIES

Bigen Africa vs Matatiele Local Municipality

The municipality is being sued for non payment of services rendered. The estimated cost of the suit is R 2 655 826.

Going Places vs Matatiele Local Municipality

The municipality is being sued and the nature of case cannot be clarified at this stage. The estimated cost of the suit cannot be determined.

Excellent Security vs Matatiele Local Municipality

The municipality is being sued and the nature of case cannot be clarified at this stage. The estimated cost of the suit cannot be determined.

Bono / Mbadu, PC Matholoana and Ayanda Shibani vs Matatiele Local Municipality

The municipality is being sued and the nature of case cannot be clarified at this stage. The estimated cost of the suit cannot be determined.

ASSETS

Matatiele Municipality vs Lubbe Construction

The municipality lodged a claim against the contractor for construction of the Council chamber which was not carried out with due skill, diligence and regularity. The estimated cost of the suit is R 22 173 329.

Matatiele Municipality vs Branded Soul

Attorneys are in the process of recovering the legal cost as there is a possibility that the case will not be continued. The legal costs and disbursements to date amount to R 36 091

Matatiele Local Municipality vs Soul Goods

The Municipality is in a process of recovering up to an amount of R 24 083 from Soul Goods, the case is at advanced stages.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-------------------|-------------------|
| 43. Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for but not provided for | | |
| • Property, plant and equipment | 95,594,974 | 77,507,240 |
| Not yet contracted for and authorised by accounting officer | | |
| • Property, plant and equipment | - | 4,147,441 |
| Total capital commitments | | |
| Already contracted for but not provided for | 95,594,974 | 77,507,240 |
| Not yet contracted for and authorised by accounting officer | - | 4,147,441 |
| | 95,594,974 | 81,654,681 |

The committed expenditure relates to property, plant and equipment contracts that will be finished in the coming years. The commitments will be financed by grants as well as own revenue.

The commitment amounts are exclusive of VAT.

The commitments for the current year will be funded as follows, Intergrated National Electrification Programme R 12 666 881, Municipal Infrastructure Grant R 61 425 145 and from Own Operational Revenue R 21 502 948.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---|------------------|------------------|
| 44. Related parties | | |
| Relationships | | |
| Employee Assistant and Health and Safety Practitioner | Mother | |
| Accountant Payroll | Spouse | |
| South African Police Service | Spouse | |
| General Manager: Infrastructure | Brother | |
| <p>Mahlonono Construction was appointed to provide grass cutting and cleaning services. The expenditure incurred was R 1 332 278. The member of Mahlonono Construction was Emelia Masisimane Rampeo who was the mother of the Municipal Employee Assistant: Health and Safety Practitioner. For a project of over 3 years which started on the 2017/2018. For the 2018/2019 financial year an amount of R 1 017 542 was paid to Mahlonono Construction.</p> | | |
| <p>Sweet Dreams Trading was appointed to provide building maintenance services. The expenditure incurred was R 42 597. The member of Sweet Dreams Trading was Taelo Letseka who was the spouse of the Municipal Accountant: Payroll. For the 2018/2019 financial year an amount of R 120 676 was paid to Sweet Dreams Trading.</p> | | |
| <p>Africa Unite (Pty) Ltd was appointed to provide cleaning services. The expenditure incurred was R 951 782. The shareholder of Africa Unite (Pty) Ltd was General Moso who was the spouse of a SAPS Officer, N. Moso. For the 2018/2019 financial year an amount of R 1 078 280 was paid to Africa Unite (Pty) Ltd.</p> | | |
| <p>Lonwabo Sicwebu, the son of Administration Support Manager, is a member of Lonely Trading who were appointed to provide services relating to grass cutting and cleaning. The expenditure incurred amounted to R 490 181.</p> | | |
| <p>Bokang Lehlehla, the brother of the General Manager Infrastructure, was a member of Maboka Contractors who were appointed to for the construction of Silo Phase 3. The expenditure incurred amounted to R 1 001 480.</p> | | |
| Awards and payments to persons with relatives in the Matatiele Local Municipality: | | |
| Mahlonono Construction was appointed to provide grass cutting and cleaning services. The member of Mahlonono Construction was Emelia Masisimane Rampeo who was the mother of the Employee Assistant and Health and Safety Practitioner | 1,332,278 | 1,017,542 |
| Sweet Dreams Trading was appointed to provide building maintenance services. The member of Sweet Dreams Trading was Taelo Letseka who was the spouse of the Municipal Accountant: Payroll. | 42,597 | 120,676 |
| Lonwabo Sicwebu, the son of Administration Support Manager, is a member of Lonely Trading who were appointed to provide services relating to grass cutting and cleaning. The expenditure incurred amounted to R 490 181. | - | 490,181 |
| A payment amounting to R5 785 was made to MK88 Pty Ltd during the 2018/19 financial year. MK88 Pty Ltd is owned by Mr. M. Khakane who is an employee of the municipality. This payment was made before he became an employee of the municipality, he commenced his duties at the municipality on 01st of February 2019. | - | 5,785 |
| Bokang Lehlehla, the brother of the General Manager Infrastructure, is a member of Maboka Contractors who were appointed to for the construction of Silo Phase 3. The expenditure incurred amounted to R 1 001 480. | 1,001,480 | - |
| | 2,376,355 | 1,634,184 |
| Awards and payments to persons with relatives in other State Departments: | | |
| Africa Unite (Pty) Ltd was appointed to provide cleaning services. The shareholder of Africa Unite (Pty) Ltd was General Moso who was the spouse of a SAPS Officer, N. Moso. | 951,782 | 1,078,280 |
| Total related party payments for the year | 3,328,137 | 2,712,464 |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|--------------|--------------|
| 45. Key Sources of Estimation Uncertainty and Judgements | | |
| The following areas involve a significant degree of estimation uncertainty: | | |
| Useful lives and residual values of property, plant, and equipment | | |
| Recoverable amounts of property, plant and equipment | | |
| Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows) | | |
| Present value of defined benefit obligation | | |
| Fair value of plan assets | | |
| Provision for doubtful debts | | |
| Impairment of assets | | |
| Provision for long-term service award | | |
| Contingencies | | |
| The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements: | | |
| Impairment of assets | | |
| Provisions | | |
| 46. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contributions to organised local government | | |
| Current year subscription / fee | 1,241,721 | 1,192,128 |
| Amount paid - current year | (1,241,721) | (1,192,128) |
| | - | - |
| Audit fees | | |
| Opening balance | 3,884,540 | 5,441,941 |
| Amount paid - current year | (3,884,540) | (5,441,941) |
| | - | - |
| PAYE and UIF | | |
| Opening balance | 21,982,465 | 20,483,296 |
| Amount paid - current year | (21,982,465) | (20,483,296) |
| | - | - |
| VAT | | |
| VAT receivable | 12,101,681 | 3,679,487 |

VAT output payables and VAT input receivables are shown in note 4 .

All VAT returns have been submitted by the due date throughout the year .

Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding at 30 June 2020.

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---|------------------|------------------|
| 46. Additional disclosure in terms of Municipal Finance Management Act (continued) | | |
| Supply chain management regulations - Deviations | | |
| In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Municipal Manager and be reported to Council for noting. | | |
| Incident | | |
| Emergency | 2,231,007 | 1,233,950 |
| Sole supplier | 611,860 | 2,593,101 |
| Impractical Impossible | 2,743,826 | 2,852,118 |
| | 5,586,693 | 6,679,169 |

47. Risk management

Financial risk management

The amount of interest that has been charged on outstanding debtors for the current year is R 11 55 030 (2019: R 9 613 900).

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash.

Financial assets exposed to credit risk at year end were as follows:

| | | |
|-----------------------------|-------------|-------------|
| Financial instrument | | |
| Trade Receivables | 8,257,890 | 7,885,922 |
| Nedbank | 1,865,473 | 10,409,097 |
| Standard Bank | 5,884,042 | 339,707 |
| First National Bank | 559,555 | 650,815 |
| Short Term Investment | 144,774,895 | 112,597,874 |

48. Budget Variances

Reasons for Variances

Methodology applied is as follows:

The basis which have been applied in determining material variances is 10%, Income we have only provided reason where the municipality has under achieved and for expenditure both over and under achieved where its 10% less or more than budget. The municipality treats employee costs as a major expense in its statement of financial performance hence we have provided reason for that variance of 7%.

Service Charges, Variance of 14%

The municipality relaxed its credit control policy during the lockdown period i.e March -June , where customers were not blocked for not paying for services , this resulted into less payments made for service charges .

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|---|-----------|-----------|
| 48. Budget Variances (continued) | | |
| Licenses and Permits , Variance of 44% | | |
| Due to the national lockdown ,revenue from licences and permits has not been recognised as planned , in the months of April - June the licencing unit was closed and no issue of licences and permits was made. | | |
| Fines Receipts, Variance of 38% | | |
| Due to the national lockdown ,revenue from fines has not been recognised as planned , in the months of April - June the licencing unit was closed and less fines were issued . | | |
| Employee Realated Costs, Variance of 7% | | |
| Vacant positions that were not filled but budgeted for for the financial year . | | |
| Remuneration of Councillors, Variance of 10% | | |
| The budget provided for a 7% increase and 4,5% was implemented as per the Gazette , this resulted into savings. | | |
| Debt Impairment, Variance of -247% | | |
| Old traffic fine debt was written off ,due increased debt balances impairment has also increased. | | |
| Other Materials, Variance of 48% | | |
| Due to the national lockdown , procurement of material for road maintenace , electrical supplies was delayed. | | |
| Bulk Purchases, Variance of 17% | | |
| The electricity consumption has decreased and is less than what was anticipated . | | |
| Contracted Services, Variance of 13% | | |
| Savings from contracted services on legal fees , refuse removal and expenditure on catering services. | | |
| Other Expenditure, Variance of 44% | | |
| This is due to savings from operational costs e.g travelling and subsistence, wet fuel as less expenditure was incurred during the national lockdown . | | |

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-----------|-----------|
|--|-----------|-----------|

49. Correction of Error

Restated prior years' figures 2017/2018

The prior year figures were restated due to entries not captured in the correct period resulting in the following adjustments for 2017/2018.

VAT Input increased by R 978 945

In the previous years 2017/2018, an amount of R 976 945 relating to the VAT portion on Debt contribution to provision for 2017/2018 was also expensed with the expenditure. The balance is for the Kokstad Copiers invoices recognised as VAT Input Accrual of R 2 888.

Trade and Other Payables increased by R 409 454

Kokstad Copiers invoices for 2018 were not captured and were not paid for an amount of R 22 139. The VAT Input Accrual of R 2 888 has been recognised and the Retained Income reduced by R 19 252. Performance bonuses to be paid to Middle Managers for the financial year ended June 2018 which were not paid amounting to R 387 315.

Impact on the Financial Statements can be summarised as follows:

Statement of Financial Position effect

| | | |
|---|---|-----------|
| VAT Control Account | - | 978,945 |
| Trade and Other Payables (Accruals 2018) | - | (409,454) |
| Statement of Changes in Net Assets | | |
| Retained Income | - | (569,491) |
| | - | - |

Restated the prior year figures 2018/2019

The prior year figures were restated due to entries not captured in the correct period resulting in the following adjustments for 2018/2019.

Sundry Debtors for 2018/2019 increased by R 15 946 943

In the prior year, an amount relating to Trade receivables-Non-Exchange (Sundry Debtor) was previously recorded in Trade receivables Exchange (Electricity).

Infrastructure (Roads) for 2018/2019 increased by R 1 557 057

Butsula Access Road that was completed in the prior year but was not transferred from Work In Progress (WIP) to Infrastructure (Roads).

Depreciation increased by R 71 553

Butsula Access Road that was completed in the prior year but was not transferred from Work In Progress (WIP) to Infrastructure (Roads). Prior year depreciation adjustment for the related depreciation.

VAT receivable increased R 849 408

Prior year debtors write off was expensed inclusive of the VAT portion amount of R 846 422. The balance is for the Kokstad Copiers invoices recognised as VAT Input Accrual of R 2 987.

Trade and Other Payables increased by R 257 334

Kokstad Copiers invoices for 2019 were not captured and were not paid for an amount of R 22 900 and the Printing and Stationery Expenses account has been increased by R 19 913. Back pay for the financial year ended 30 June 2019: GM Corporate for 11 months for the amount of R 234 435.

Impact on the Financial Statements can be summarised as follows:

Matatiele Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

| | 2020 R | 2019 R |
|--|-----------|----------------|
| 49. Correction of Error (continued) | | |
| Statement of Financial Position effect | | |
| Trade receivables Non-Exchange (Sundry Debtor) | - | (15,946,943) |
| Trade receivables Exchange (Electricity) | - | 15,946,943 |
| Infrastructure at cost (Butsula Access Road) | - | 1,557,057 |
| Work In Progress (WIP - Butsula Access Road) | - | (1,557,057) |
| VAT Control Account | - | 849,408 |
| Trade and Other Payables (Accruals 2019) | - | (257,334) |
| Infrastructure accumulated depreciation | - | (71,553) |
| | - | 520,520 |
| Statement of Financial Performance effect | | |
| Debt Impairment | - | (846,422) |
| Employee Related Costs (Salaries) | - | 234,435 |
| Printing and Stationery | - | 19,913 |
| Depreciation | - | 71,553 |
| | - | 520,520 |

50. Events after the reporting date

Mr V. Mlokothe was the Acting Municipal Manager for the portion of the period under review however from 29 July 2020 Matatiele Local Municipality appointed Mr N.R. Xolo to be the Acting Municipal Manager until 31 August 2020. The Municipality has appointed Mr L. Matiwane to be the Municipal Manager from 1 September 2020.

51. Other reporting events

At the end of March 2020, the COVID19 virus was declared a pandemic by the World Health Organisation and by the South African Government. South Africa entered into lockdown on 26th March 2020, which meant that businesses that were not seen as essential had to shut down.

This then meant any facilities that are normally rented out by the municipality had to be shut down. COVID 19 had a significant impact on the amounts as disclosed on the Annual Financial Statements. The affected areas were mainly debtors, cash and cash equivalent, debtor's impairment, Inventory. These amounts and impacts are furthermore discussed on note 48.